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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item # 28
Agenda ID #13147
RESOLUTION E-4672 (Rev. 1)
August 14, 2014

R E S O L U T I O N

Resolution E-4672. In compliance with Decision (D.) 12-03-034, Southern California Edison (SCE) has submitted for filing its independent verification that the pension and other post-employment benefits (OPEB) liabilities under the Four Corners Purchase and Sale Agreement Final Closing Statement are based on the same accounting principles, policies, and methodology as Arizona Public Service Company (APS) has historically used in connection with the calculation of the owners' pension and OPEB liabilities.

PROPOSED OUTCOME:

- This resolution acknowledges that SCE has independently verified that the pension and OPEB liabilities included in the Final Closing Statement are based on the same accounting principles, policies, and methodology as APS has historically used in connection with the calculation of the owners' pension and OPEB liabilities.

SAFETY CONSIDERATIONS:

- The divestiture of SCE's interest in Four Corners is consistent with SB 1368 mandating a greenhouse gas Energy Portfolio Standard (EPS) and the Commission's decisions establishing and implementing the EPS for SCE. Four Corners does not meet the adopted EPS.

ESTIMATED COST:

- SCE's share of the pension and OPEB liabilities is \$5.185 million.

By Advice Letter 3011-E filed on March 5, 2014.

SUMMARY

By Advice Letter (AL) 3011-E, filed on March 5, 2014, Southern California Edison (SCE) submitted its independent verification that the pension and other post-employment benefits (OPEB) liabilities under the Four Corners Purchase and Sale Agreement Final closing Statement is consistent with the principles, policies, and methodology historically used by the Arizona Public Service Company (APS) in connection with the calculation of the owners' pension and OPEB liabilities, pursuant to Ordering Paragraph 5 of Decision (D.) 12-03-034.

BACKGROUND

The Commission approved the sale of SCE's interest in Four Corners Generating Station to APS on March 22, 2012.

SCE filed Application 10-11-010 on November 15, 2010 in order to get authorization from the Commission to sell its share in Four Corners to APS. SCE owned a 48% share in Four Corners Generating Station Units 4 and 5 (Four Corners), a coal-fired generation plant operated by APS located in New Mexico, pursuant to ownership agreements which would have expired in mid-2016. After probing the issues identified in the scoping memo the Commission made several determinations in D.12-03-034 including the following:

1. SCE's ownership interest in Four Corners was not necessary or useful in the performance of its duties to the public.
2. Divestiture will not impair the reliability of the California electric supply.
3. The divestiture of SCE's interest in Four Corners is consistent with Senate Bill 1368 mandating a greenhouse gas Emissions Portfolio Standard (EPS) and the Commission's decisions establishing and implementing the EPS for SCE. Four Corners did not meet the adopted EPS.
4. SCE's divestiture of its interest in Four Corners resolved the tension between the EPS rules (prohibiting SCE from making certain life-extending expenditures for Four Corners) and SCE's potential contractual obligations under the Four Corners Project Operating Agreement (funding certain pro rata capital investments as a co-owner).

5. Under a reasonable range of assumptions, the value of the Asset Sale and Purchase Agreement (Sale Agreement) will hold SCE ratepayers economically indifferent to a sale before the expiration of the Operating Agreement.

The Commission approved SCE's recommendation for ratemaking treatment of the gain on sale.

SCE proposed to record the net after-tax gain on sale, grossed up to a revenue requirement level, as a credit to the generation sub-account of SCE's Base Revenue Requirement Balancing Account. In D.12-03-034 the Commission found SCE's proposed ratemaking treatment to be reasonable.

D.12-03-034 directed SCE to deduct or add liabilities for pension and other post-retirement benefits from the proceeds from sales.

The decision ordered that the Sale Agreement provide that, at transaction close, there will be a true-up related to SCE's share of liabilities for pension and OPEB associated with SCE's share of Four Corners employees. More specifically the decision ordered that depending on whether SCE's share of the liabilities is underfunded or overfunded, the amount will be deducted or added, respectively, to the proceeds from the sale price.

Based on APS's forecast and assuming an October 1, 2012, closing date, SCE estimated the cost of these liabilities to be approximately \$21 million. The Commission noted that APS will provide final calculations at transaction close, which SCE may review and challenge in good faith pursuant to the terms of the Sale Agreement.

D.12-03-034 directed SCE to submit a Tier 3 advice letter for recovery of its pension and OPEB liabilities based on its independent verification.

The Commission found that preapproval of SCE's recovery of its share of liability for pension and OPEB costs under the sale Agreement would provide no incentive to SCE to critically review and, if appropriate, challenge APS's forecast at the time of closing. Therefore D.12-03-034 directed SCE to submit a Tier 3 advice letter for recovery of its pension and OPEB liabilities under the Sale Agreement based on its independent verification that the costs reflected in the

closing statement are based on the same accounting principles, policies, and methodology as APS has historically used in connection with the calculation of the owners' pension and OPEB liabilities. The Commission ordered that the advice letter shall be submitted within five days after its receipt of the final closing statement, and shall be served on the official service list of this application.

SCE's share of liabilities for pension and OPEB is \$5.185 million.

The Sale was closed on December 30, 2013 with a sale price of approximately \$182 million. On February 28, 2014, 60 days post-closing, APS sent to SCE the Final Closing Statement that included \$5.185 million for OPEB and pension liabilities (the True-Up Amount) amongst other post-closing adjustments.

According to SCE, the decline in the unfunded pension and OPEB liabilities compared to the initial estimate on October 1, 2012 is "primarily due to favorable trust fund investment performance in the intervening three years, higher discount interest rates as of the final calculation date, changes in demographic actuarial assumptions which reduced overall plan liabilities, and the implementation of an Employer Group Waiver Program (EGWP) as of January 1, 2013, which reduced the employer's cost of providing post-retirement benefits."¹

The Final Closing Statement includes other post-closing adjustments that show a credit balance for SCE. Combining pensions and OPEB liabilities, \$5.185 million, with other post-closing adjustments would provide SCE with an approximate payment of \$5.4 million from APS.

NOTICE

Notice of AL 3011-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of AL 3011-E was distributed in accordance with Section 4.3 of G.O. 96-B.

¹ SCE's response to Energy Division's data request on June 25, 2014.

PROTESTS

No parties submitted a protest to SCE AL 3011-E.

DISCUSSION

AL 3011-E is approved. The relevant facts that lead to our approval of the advice letter are discussed below.

D.12-03-034 directed SCE to submit a Tier 3 advice letter based on independent verification of its share of pension and OPEB liabilities.

In D.12-03-034 we authorized the sale of SCE's interest in Four Corners Generating Station to APS and ordered that the Sale Agreement provide that, at transaction close, there will be true-up related to SCE's share of liabilities for pension and OPEB associated with SCE's share of Four Corners employees. We also established that after its receipt of the Final Closing Statement SCE shall submit a Tier 3 advice letter for recovery of its pension and OPEB liabilities under the Sale Agreement based on its independent verification that the costs reflected in the closing statement are based on the same accounting principles, policies, and methodology as APS has historically used in connection with the calculation of the owners' pension and OPEB liabilities.

The Sale was closed on December 30, 2013. The Final Closing Statement that APS sent to SCE on February 28, 2014 included \$5.185 for pension and OPEB liabilities amongst other post-closing adjustments.

SCE engaged AON-Hewitt to review its share of pension and other OPEB liabilities in the Final Closing Statement.

SCE engaged AON-Hewitt, a member of the American Academy of Actuaries, to review the True-Up Amount of \$5.182 million for SCE's share of the pension and OPEB liabilities included in the Final Closing Statement and to confirm that the calculation was based on the same accounting principles, policies and methodology as APS has historically used in connection with the calculation of owners' pension and OPEB liabilities.

The Commission acknowledges that SCE in AL 3011-E has complied with D.12-03-034.

On March 5, 2014 SCE filed Tier 3 AL 3011-E, which included AON-Hewitt's confirmation that based on the data it was provided, APS's actuarial calculations appeared to be reasonable and consistent with the principles, policies and methodologies historically used by APS for pension and postretirement benefits other than pensions (PBOP) accounting purposes. AL 3011-E complies with Ordering Paragraph 5 of D.12-03-034.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, this draft resolution was mailed to all parties for comment, and was placed on the Commission's agenda to be voted on no sooner than 30 days after mailing. No parties filed any comments.

FINDINGS AND CONCLUSIONS

1. D.12-03-034 approved the sale of SCE's interest in Four Corners Generating Station to APS on March 22, 2012.
2. The decision ordered that the Sale Agreement provide that, at transaction close, there will be a true-up related to SCE's share of liabilities for pension and OPEB associated with SCE's share of Four Corners employees.
3. D.12-03-034 authorized SCE to deduct or add liabilities for pension and other post-retirement benefits from the proceeds from sales.
4. The Commission found preapproval of SCE's recovery of its share of liability for pension and OPEB costs would provide no incentive to SCE to critically review and challenge APS's forecast at the time of closing.
5. Ordering Paragraph 5 of D.12-03-034 directed SCE to submit a Tier 3 advice letter for recovery of its pension and OPEB liabilities based on its independent verification that the costs reflected in the closing statement are based on the same accounting principles, policies, and methodology as APS has historically used in connection with the calculation of the owners' pension and OPEB liabilities.

6. SCE engaged AON-Hewitt, a member of the American Academy of Actuaries, to review the True-Up Amount of \$5.185 million for SCE's share of the pension and OPEB liabilities included in the Final Closing Statement.
7. On March 5, 2014 SCE filed Tier 3 AL 3011-E.
8. AL 3011-E included AON-Hewitt confirmation that APS's actuarial calculations are consistent with the principles, policies and methodologies historically used by APS for pension and PBOP accounting purposes.
9. AL 3011-E complies with D.12-03-034.

THEREFORE IT IS ORDERED THAT:

1. SCE's share of the Four Corners true-up of pension and other post-employment benefits liabilities shall be netted with the other post-closing adjustments from the sales price per the terms of the Purchase and Sale Agreement.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 14, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director